SEPTEMBER 1951

THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

THE SHORTAGE OF SHORTAGES

Mrs. John Public has left merchants in a sales-inventory dilemma. Sales, after the buying splurge of last winter, turned sluggish while merchants anticipating shortages stocked up large inventories. In April the dilemma was at its worst; there was a shortage of shortages. The situation has improved but stocks are still heavy. People can not live much longer on the excess purchases of last winter. Moreover, people have been building up their savings and disposable incomes are high.

DEFENSE BOND DRIVE

The Defense Bond Drive opened September 3. The purchase of Defense Bonds strengthens national defense, reduces inflationary pressures, and adds to our savings.

EASIER REAL ESTATE CREDIT TERMS

Down payment and maturity requirements of Regulation X and related restrictions have been relaxed.

CURRENT TRENDS

Most phases of business activity eased off slightly in July. A notable exception was construction. Factory output, employment, and payrolls declined as did bank loans.

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THE SHORTAGE OF SHORTAGES

Today's sales-inventory dilemma was unforeseeable yesterday.

Sales in January started the year off right merrily for department store merchants but the following months hardly kept pace with the auspicious beginning. As each month passed, retailers and their bankers, and their customers began observing the situation more closely. This was the year when defense production was to make serious inroads on the civilian economy. It has made inroads in the form of higher prices, larger incomes, more savings, and bigger taxes, but most of the anticipated shortages never came.

Many forecasters had predicted that this would be a rosy year for retailers. Sales were to continue at high levels. Unfortunately, after the most sprightly January on record, sales turned sluggish. Most inventories, to be sure, were high but they were planned that way, especially durable stocks, in preparation for coming shortages. Alas, stocks stayed too high too long. Once again predictions went awry.

Recent retailing in the Third Federal Reserve District parallels the situation elsewhere throughout the United States. Anxiety over high inventories and declining sales is being voiced country-wide, almost regardless of locality. The retailer on the West Coast is joining his Eastern cousin when they meet at the manufacturers' latest showings of new styles, whether they be appliances in Atlantic City, furniture in Chicago, or women's clothing in California. "My inventories are 30 per cent over a year ago and sales have fallen off considerably. I'm here for one purpose only—to look. Didn't even bring my check book along."

Evidently the retailer is not the only one who has been neglecting to bring his check book recently. Either Mrs. John Public has been equally forgetful or she may have been too busy watching the telecast of the Senate crime investigations or she may have taken a prolonged summer vacation. The fact remains she has not taken the time to do much shopping.

Retailers have been trying to entice her to return to the stores but with only moderate success. Although sales, so far this year, have not been so poor as the figures in bold and unromantic percentages would seem to indicate, they have been disappointing, nevertheless, to retailers who had expected increasing sales in view of rising consumer incomes and savings.

Sales Adrift

Department store sales in the Third Federal Reserve District, after a jumping January, dropped sharply and have been drifting aimlessly ever since. The 28-per cent sales increase in January over a year ago rapidly shrank to a 6-per cent increase for the first seven months of the year compared with the like period of last year. Monthly figures, adjusted for seasonal variation, dropped to a plus 2 in April compared with April of 1950 and struggled up to a very uninspiring plus 4 in May, only to slide weakly back to zero in June. The July showing was poor; it fell to a minus 13 per cent. Disappointing though it was, it was hardly a surprise because July of this year has the misfortune of being compared with the Korean sales boom of late last summer. August results, when fully known, may suffer a similar fateful comparison.

Sales recorded in dollars, of course, do not tell the whole story because we have been going through a period of puffy prices. When District sales are adjusted in terms of the cost of living, the most recent months of this year rival the most depressed levels reached by any month in the past four and one-half years. In other words, sales have not really kept up as well as they seem.

Undoubtedly some of the consumer apathy evidenced now is the result of the sales splurges of the late summer of 1950 and last winter. If buying had been spread out rather than concentrated in two sharp peaks, the current level of department store sales would very likely be considerably higher. Due to the Korean war and prospective shortages, the public surged into the market in July 1950 and again in January 1951. People purchased much in advance of their actual needs, and many bought to the point of extending themselves financially. In the months to follow, a reaction set in as Mr. and Mrs. John Public settled down to consume their newly acquired supplies of merchandise and to save some money to pay their bills. Store-wide clearances this summer, although quite appealing in some instances, generally have not tempted people into completely breaking down

their resistance to prices which many feel are still excessive. A half year and more has gone by since the record-breaking January and although the Korean war, for the present at least, has faded out of people's minds as a prime consideration in determining the pattern of buying, sales may show some recovery when people by the millions return from their vacation playgrounds and resume their normal walks of life.

DEPARTMENT STORE SALES AND STOCKS

Third Federal Reserve District

Durables vs. Nondurables

The physical constituents of department store sales, durable and nondurable goods, have shifted very slightly in the postwar period. Early 1950 showed a small increase in the importance of durable sales. This increase was maintained during the last half of 1950 and the first half of this year when durables constituted 26 per cent of total sales. Although there has been some increase in the importance of durables in purchases at department stores, the change has been too slight to attach any particular significance. Some sources, however, have advanced the theory that the outbreak of war which customarily has resulted in scarcities of durable goods such as refrigerators, radios, electrical appliances, and other housefurnishings, probably was a principal factor in the rising importance of durable sales in the latter part of 1950 and early 1951.

The public in its shunning of retail counters has made little distinction between the types of goods, however. Sales in both classifications have experienced substantial declines from January levels. Durable housefurnishings began the year with a remarkable 53-per cent increase over January of 1950—the largest increase reported by any main store major classification. By June, however, sales withered away to a mere 7-per cent increase for the first six months and a decrease of 9 per cent for June of this year compared with June of 1950. Several nondurable departments, although they did not enjoy quite such effete new-year prosperity, also declined from January levels. Small wares were up 12 per cent in January, but by June the six months' sales had receded to a very shaky 1-per cent increase.

Undoubtedly, the most extreme example of a plummeting decline in sales reported in the Third District was that experienced by the radio, television, pianos group. In January, sales in this classification soared to a phenomenal 111-per cent increase for the month. By June, a startling 8-per cent decrease was reported for the year to date compared with the same period last year.

Cash, Charge and Instalments

Perhaps there is some validity to the complaint of many husbands that their wives go into the stores, spy something they want, and blithefully say, "Charge it," never worrying about the avalanche of bills on the first of the month following. Charge transactions normally constitute the largest portion of total sales with cash and instalments following in that order. Of the three, most interest is centered on the course of instalment sales because of the constant attention instalments have received in the numerous efforts to control the inflationary forces at work in the nation's economy, particularly since the outbreak of war. During the first half of 1950, instalment sales gained slightly in importance and were showing substantial percentage increases over the previous year. They reached their highest proportion of total sales in the latter part of the summer when they were 14 per cent of the total, but since then they have been dropping slowly. Although such an increase in the early part of the year is seasonal, last summer's peak was higher than customary.

The gradual decline appears to coincide with the initiation of new credit regulations early last fall. Following the reimposition of Regulation W in September, the dollar amount of instalment sales suddenly dipped 10 per cent between September and October. The decline con-

tinued almost without interruption except in December when instalment sales rose in terms of dollar value though not in percentage of total sales. While the sharp decline in instalment sales between September and October was not in accordance with the customary instalment activity for these two months, and although the decrease coincided with the passage of Regulation W, it is not conclusive that the new restriction was the instigator of the change. Most department stores had been offering terms on instalment sales well within the stiffened requirements and should not have suffered in any marked degree from the September regulation. There seems to be no indication that instalment sales have shifted primarily to either cash or charge sales.

The structure of department store sales transactions in Philadelphia varies slightly from that of the remainder of the District. Charge accounts are much more popular in the city than they are in the outlying areas with fewer city purchasers buying for cash. Instalment-buying habits in Philadelphia are like those elsewhere in the District.

Perhaps the popularity of cash payments in the outlying sections stems largely from the preference of this medium of trade in the rural areas. The fact that these sections of the Philadelphia District are, on the whole, quite prosperous might make cash payments even more commonly employed. Some time ago, a Philadelphia engineering firm was engaged by a farm machinery manufacturing concern located in up-state Pennsylvania to find ways and means for increasing the sale of their products. Something which greatly amazed the Philadelphians was the sales practice which they found employed. There was only one type of sale—the cash transaction. Machinery was shipped only upon receipt of a check from the purchaser. Accordingly, the engineers recommended various time-payment plans to attract more customers. Some time later, the engineering firm inquired whether their recommendation had been accepted. "Oh yes," was the reply—"We now ship either upon receipt of check in advance or by sight draft bill of lading attached."

Regulation W

When Congress amended the Defense Production Act of 1950 in July of this year, the Federal Reserve Board announced a series of amendments to Regulation W to comply with the provisions of the new law which, in effect, eased credit controls. Down payments on articles sold by retail stores were decreased from 25 to 15 per cent and, henceforth, could be paid either in cash or by "trade-in," or a combination of both. The length of the term of a loan was extended from 15 to 18 months on household appliances, radios and television sets, and furniture. This was greeted by retailers with wide-spread approval and with renewed hope that increased sales would reduce burdensome inventories to more satisfactory levels.

Newspapers over the following weekend were filled with full-page advertisements hopefully acquainting consumers with the eased credit regulations. It seemed like a wonderful opportunity for retailers to dispose of slow-moving durables such as television and refrigerators. These two items appeared to be the chief targets as retailers launched their latest sales campaign. Refrigerators offered at $269.95 could be purchased with a down payment of $40.49 and if a trade-in value of at least that amount were allowed on an old refrigerator, there need be no down payment at all.

Although this latest action at first brought enthusiasm from retailers, it is still too early to estimate its effectiveness in stimulating sales. Preliminary reports are indefinite. Some sellers state that, since the beginning of August, their appliance sales have shown tremendous increases over last month, but they also add that any increase would be noteworthy since their July results were so poor. Other retailers report that little or no changes have occurred.

Very recent weekly reports would seem to indicate that domestic floor coverings are evidencing slightly better comparisons with year-ago results than are household appliances or radios, television, pianos and records which are two of the departments primarily affected by the revision of Regulation W. One explanation for the improvement in the position of domestic floor coverings is the sharp decline in wool prices which has occurred since last March. At the outbreak of the Korean war, wool prices soared in response to anticipated wool shortages and Government stockpiling. Carpet manufacturers, confronted by higher wool prices and consumer resistance to increasing rug prices, began searching for a substitute for the all-wool floor covering and resorted to blends of wool and rayon. In the past few months, the increasing use of these blends coupled with the cessation of wool stockpiling by the Government and continued consumer resistance to high carpet prices, has resulted

in a substantial downward readjustment of wool prices. Consequently, retailers, who are heavily stocked in floor coverings, are now confronted with new carpets coming off the looms at lower prices. Numerous carpet clearances have been the result.

The appliances and radios, television, pianos and records departments have not as yet enjoyed such encouraging results. Retailers, however, seized upon the newly amended Regulation as a means to increase their sales, and advertisements proclaiming "NO DOWN PAYMENT"—(in cash) on such necessities as refrigerators and stoves appeared more frequently in recent weeks.

Bulky Inventories

The rapid build-up of department store stocks during the first quarter of this year was anxiously eyed by both retailers and consumers, but from different points of view. The retailer, anticipating shortages and continued high sales volume, discovered that both failed to materialize and as a consequence he is confronted with overloaded inventories. The consuming public, watching increasing prices with vexation, is hopefully anticipating record-breaking storewide clearances.

In the Third Federal Reserve District, the ratio of stocks to sales rose steadily from the beginning of the year until April when a seasonally adjusted postwar peak of 116 was reached. At that point, department store inventories in the Philadelphia District stood 33 per cent over April 1950. The months of May, June, and July showed a slight easing in the situation but inventories are still too high to suit most retailers. The explanations for the unexpected situation are numerous and varied.

Following the outbreak of war in Korea and the increasing tenseness of the international situation, this country embarked on the greatest peacetime armament program in our history. The Defense Production authorities issued warnings of the need for large cutbacks in civilian products using scarce and essential materials. Retailers, consequently, anticipating the impending shortages and higher prices, immediately ordered increasing supplies of television sets, electrical appliances, housefurnishings, and even household textiles and blankets. At the end of last year, the inevitability of shortages was generally accepted. Subsequent developments exposed the error of such actions. Although the higher prices have materialized, the shortages did not develop and retailers, confronted with declining sales, have found themselves overburdened with inventories.

Optimistic Ordering

To aggravate the situation further, retailers who usually place orders some months in advance of delivery, were perhaps unduly encouraged by the high level of consumer activity evidenced during the summer of 1950 and at the beginning of the new year, and placed larger orders than their succeeding months' sales warranted. Thus, the stores achieved their greatest inventory accumulations some months after the highest level of consumer demand had been reached. When January ushered in the new year with a booming increase in sales of 28 per cent over January of 1950, Third District retailers' hopes leaped high with anticipation. The following months, however, brought a gradual reduction of sales volume and when March and an early Easter showed adjusted sales up only 8 per cent over a year ago, rationalization of the disappointing results began. Sales were poor because Easter was early and the weather was still too wintry for spring clothes—were common explanations. Another explanation was that March 15 and the income tax were too close to Easter for people to be able even to think about new spring wardrobes. Many retailers felt that the slack buying was merely a reaction or a breathing period between the January splurge and the next large-scale consumer invasion of the department stores. Undoubtedly, the combination of all these factors plus several others such as credit regulations and the easing of the Korean conflict, has been responsible for the disappointing sales volume during the spring and summer.

Not anticipating the slackening of consumer activity and expecting curtailment of civilian production in favor of the military, many retailers placed large orders with distant delivery dates in mind. The military requirements, however, failed to have the expected initial effect on civilian production. In fact, the index of industrial production for the first four months of 1951 tipped the scale 20 per cent above the same period last year. Consequently, deliveries, instead of being slow, actually were faster than expected.

The combination of disappointing sales, higher prices, anticipated shortages, and unexpectedly rapid deliveries has resulted in the Third District department stores in

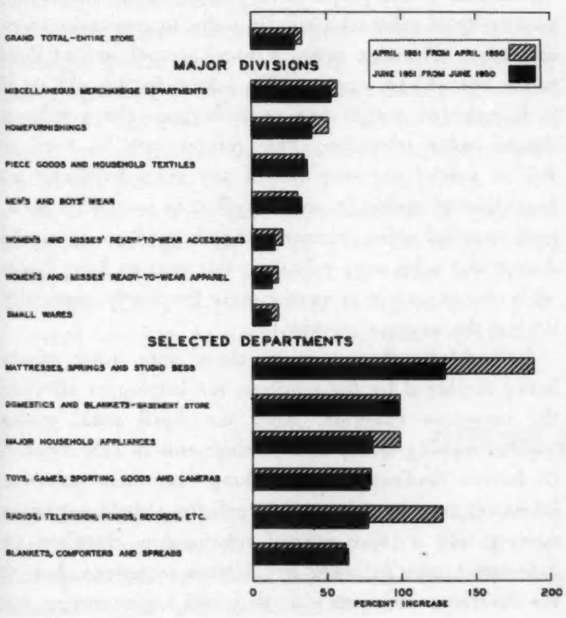
April having a 4.2 months' supply of stocks on hand in contrast with a 3.0 months' supply last year.

Heavier Inventories Outside of Philadelphia

The problem of heavy inventories is shared by department stores both in Philadelphia and elsewhere in the District. In July of this year, District stocks had increased 28 per cent over July of last year. Stocks of Philadelphia stores accounted for a 29-per cent increase in contrast with smaller gains reported by outside stores. In no instance, during the past three and one-half years, however, has the ratio of stocks to sales been higher for the Philadelphia stores than it was for the District stores, which would seem to indicate that it has been the practice of "outside" stores to carry heavier inventories in relation to sales than those in the "central city." It seems apparent, therefore, that the unusually heavy stocks are generally shared throughout the District and that this problem is not peculiar to any one city or sector.

CHANGES IN DEPARTMENTAL INVENTORIES

Third Federal Reserve District



Dollar and Physical Inventories

Obviously a large part of this inventory build-up can be explained in terms of inflated values. This is not sufficient explanation, however. Allowing for inflated prices, the accumulation of inventories in terms of physical volume has been substantial. After examining the relationship of price changes to estimates of changes in physical volume, it is clear that the dollar inventories and the estimated physical volume of inventories in the Philadelphia District moved in a fairly close and harmonious relationship until the first six months of this year when the divergence between the two became larger than at any other time during the postwar period. Physical volume then lagged below the rapidly increasing dollar value of stocks as the purchasing power of the dollar declined further. The greatest differences occurred in durable goods, particularly housefurnishings and furniture and bedding.

Departmental Inventories

Of the tremendous dollar increases over a year ago evidenced at the April peak among the durable goods groups, the largest were mattresses, springs, and studio beds, with a gain of 189 per cent; major household appliances up 99 per cent; and radios, television, pianos, and records 127 per cent. The only nondurable goods approaching these increases were toys and games, sporting goods and cameras up 79 per cent, and blankets and comforters up 62 per cent in the main store and 99 per cent in the basement. The increase of blankets and comforters was probably due to the fact that retailers had stocked heavily in response to the numerous rumors of wool shortages while consumers, although they recognized the impending emergency, did not keep pace with the retailers, but turned most of their attention to muslins and sheetings. Sales of blankets, comforters, and spreads showed an increase of 21 per cent for the first four months of this year in contrast with the 49-per cent increase of sheetings and muslins. Meanwhile such durables as household appliances, and radios, television, pianos, and records were among those showing declining sales.

In the months following the April peak, departmental inventories generally began readjusting slightly. By June, definite improvement was noted in the durable goods groups although the inventories were still burdensome. Mattresses, springs, and studio beds declined to a 129-per cent increase over last June, major household appliances to 80 per cent, and radios, television, pianos and records to 77 per cent. The various nondurable

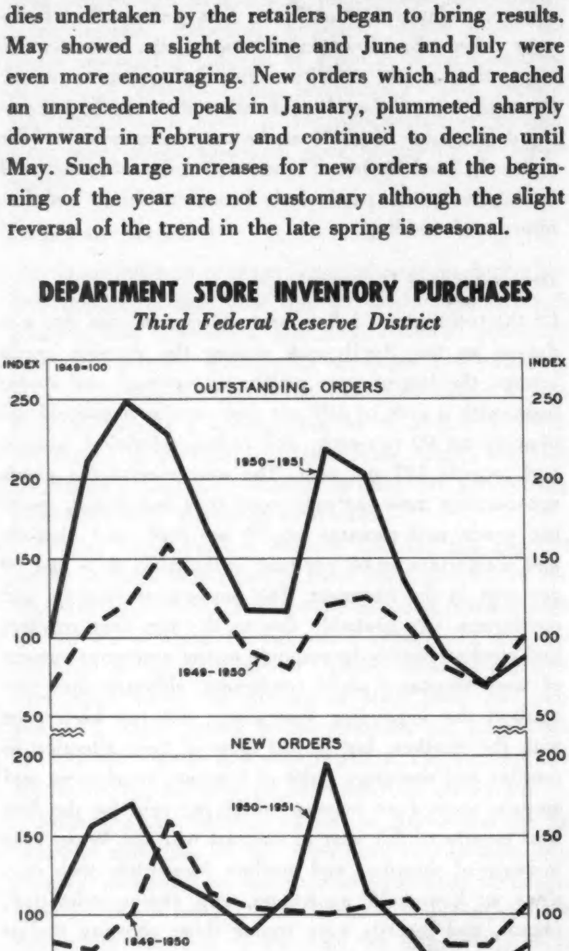
classifications which had rivaled the huge durable increases in April, unfortunately did not undergo similar adjustments and June found nondurables almost unchanged from their April peak.

Retailers' Remedies

After the April peak inventory accumulation, the remedies undertaken by the retailers began to bring results. May showed a slight decline and June and July were even more encouraging. New orders which had reached an unprecedented peak in January, plummeted sharply downward in February and continued to decline until May. Such large increases for new orders at the beginning of the year are not customary although the slight reversal of the trend in the late spring is seasonal.

DEPARTMENT STORE INVENTORY PURCHASES

Third Federal Reserve District



Outstanding orders have followed a similar trend after a more gradual decrease in February. The pattern this year was similar to that of 1950, but, as the chart shows, the movements were considerably sharper. Both new and outstanding orders showed a decline of approximately 67-68 per cent between January and May. The fact that outstanding orders trailed the placement of new orders only slightly on their downward plunge seems to indicate that there was very little delay in delivery—something the retailers had not anticipated when they placed their large orders. Evidence of this is the increase of new orders between December and January far in excess of the seasonal trend. The slightly retarded decline of the outstanding orders is probably largely attributable to orders for durable goods which usually have extended delivery schedules.

Retailers who formerly placed orders six to eight months in advance are now trying to combat the inventory problem by keeping their orders within a very much shorter delivery time. Some products are being ordered only thirty days in advance.

The sales aspect of the problem is being met in various ways. There are reports of increased promotional efforts, often in the form of giveaways or more aggressive advertising. One appliance firm has announced the granting of a 30-day free trial period with the purchase of a deep fat fryer supplemented by a gift electric grinder. Some time ago, a large television concern revealed that it was prepared to gamble on the immediate popularity of color television in order to encourage black and white television sales. A purchaser of one of their video sets will be guaranteed a refund for his old set if it is returned within two years because the purchaser desires color television. This refund may be used as full or partial payment toward any color television set regardless of make. In another effort to encourage sales, such seasonal sales events as August furniture sales and August fur sales were advanced this year to July. Storewide clearances are occurring more frequently, especially during the summer months.

Undoubtedly these actions, along with other efforts being employed by the retailers, are helping to alleviate the inventory situation. After the April peak, stocks began dropping slowly and developments in July resulted in further declines. Over the long run, there seems to be no reason why sales and inventories should not begin moving into a more normal relationship. Retailers do not expect sales to suffer any further recessions, but on the contrary, anticipate that they will begin moving upward again as soon as consumers are able to meet all of their commitments incurred during the January-February buying splurge.

In addition to this, defense planners are anticipating

that defense production will begin having a more noticeable effect on the nation's economy either in the late fall or during the winter. Some industry sources fear that there may be even further delay in defense expansion because of the machine tool bottleneck which is still retarding the equipment of defense plants. Regardless of this difficulty, however, the anticipated shortages, if they materialize, should increasingly evidence themselves within the next year and thus would automatically bring about a more normal stock-to-sales relationship.

While the problem, over the long run is expected to resolve itself, the concern of retailers is with the short run. The current department store situation is unusual because it has been inconsistent with many of the economic factors which normally affect retail trade. Although sales this year have fallen short of anticipations, disposable consumer income and savings have been advancing. During the second quarter, disposable personal income rose about 2½ per cent while consumption expenditures declined 3 per cent. For example, in percentage of disposable income, consumer purchases of apparel in the past three months have been lower than at any other time since 1929.

A decrease was evidenced in both volume and value of consumer purchases as the public saved an unusually high proportion of disposable income during the second quarter of this year. Personal net savings at the end of June were up 122 per cent over the corresponding quarter of last year.

Many factors may have contributed to this unusual situation. Perhaps, one of the most important among these is the sentiment expressed by many people that prices are simply excessive. Even though in many cases, incomes have kept pace with price increases, the individual consumer seems convinced that his position has not improved but that he is being left behind in the price-wage race. It might not be unreasonable to expect that eventually the consumer will become accustomed to the higher prices or will enter the market believing that although prices are high, they may go still higher. Although the sales record of the past few months has not been up to expected levels, Mr. and Mrs. John Public cannot live much longer on the excess inventories purchased last winter. While disposable incomes and savings remain high every indication points toward a rising level of sales and thus an accelerated readjustment of the inventory situation.

During the last half of this year and the beginning of next, capital expenditures for defense purposes should make their influence increasingly evident in the national economy. Non-farm plant and equipment expenditures were estimated to be at an all-time high during the second quarter of this year when they climbed to a 48-per cent increase over the same period last year. Businessmen are planning to continue investment at about this record level during the next three months. One effect of these capital expenditures, which might assist in readjustment of inventories, would be increased consumer income which in turn may be expected to stimulate retail sales.

It does not seem, therefore, overly optimistic to conclude that as defense production swings into action, barring a reversal of the nation's military preparedness policy, the next few months may bring increased employment, hours, and payrolls. Although the proposed tax increases in the fall will undoubtedly siphon off some purchasing power, liquid assets of consumers are at a peak and there is no reason why sales should not continue at high dollar levels in the months ahead.

DEFENSE BOND DRIVE

The Defense Bond Drive is underway. It opened September 3 and continues through October 27. The fact that Savings Bonds have been relabeled Defense Bonds is symbolic of the purpose of the Drive.

Communist aggression has imposed upon us a twofold problem: (1) rearmament to build a strong national defense, and (2) made more difficult maintaining a sound economic system. The purchase of Defense Bonds helps solve both of these problems and, in addition, benefits us individually by adding to our savings.

Strengthens Our National Defense

In buying Defense Bonds, we help build up our national defense in two important ways. In the first place, we supply funds needed to carry out the large defense program which foreign aggression has imposed upon us.

More money is needed to buy food, clothing, tanks, airplanes, guns, ammunition, and other equipment for the growing number in our armed forces. A strong national defense requires that we divert an increasing amount of both income and goods from civilian to defense purposes.

Second, buying Defense Bonds helps maintain a strong and stable economic system which is the very foundation of an enduring defense against foreign aggression. A large defense program always poses the threat of inflation. The production of defense goods puts more dollars into workers' pay envelopes and into businessmen's bank accounts but it does not put any civilian goods in the stores for these dollars to buy. Thus defense production tends to create a gap between buying power, on the one hand, and the supply of civilian goods available for purchase on the other.

The only way to close this gap, and prevent the spending stream from overflowing its banks and spreading inflation, is for the Government to draft dollars as well as goods for defense. This means that we must transfer enough of our income to the Government to pay its expenses; otherwise, there will be too many dollars and too few goods with the result that we will have to pay higher prices for the things we buy.

Taxation is the first line of defense against this source of inflation. Taxes reduce the spending power of the taxpayer and increase that of the Government. Furthermore, this method of financing does not build up a debt which must be repaid by taxation later. A "pay-as-we-go" policy is the soundest method of financing our defense program. It takes enough of our income to pay for defense and leaves enough to purchase the available supply of civilian goods at current prices. It is a real preventive because it strikes at the roots of inflation. The Government has been following a "pay-as-we-go" policy until recently when new borrowing became necessary.

The second line of defense against the inflationary effects of financing defense is the sale of Government securities to non-bank buyers. This method transfers funds from the purchaser of the bonds to the Government, leaving total purchasing power the same. If we don't buy enough bonds, however, the Government is forced to sell securities to the banks and new deposit dollars are put at the disposal of the Treasury without any decrease in the supply available to individuals and business firms. More dollars are created but there is no increase in the supply of civilian goods for these dollars to buy. This is the road to higher prices and more inflation.

To the extent that the Government must resort to borrowing, it is important that the funds come from individuals and businesses—from non-bank sources. In buying Defense Bonds, then, we are helping build a strong defense — against Communist aggression from abroad and against inflation at home. We cannot build a strong national defense on an economic system ravaged by inflation.

Builds Up Our Savings

Anything that benefits the country benefits its citizens, but we are prone to think in terms of ourselves: Does the purchase of Defense Bonds benefit us directly?

The Defense Bond Drive does provide an opportunity for us to help ourselves as well as our Government. In the first place, saving is a means of protecting our personal security and our freedom. A reserve of savings comes in mighty handy in case of an emergency such as sickness or a period of unemployment. Furthermore, systematic saving has enabled many people to get some of the more expensive things that they would like to have—such as a home, a farm, or an education for their children.

Second, Defense Bonds offer a safe and convenient method of investing our savings. They are safe and can readily be converted into cash without the danger of losing a part of the principal. Series E Bonds mature in ten years, they can be cashed at fixed redemption values after 60 days, and they yield 2.9 per cent if held to maturity. Series G Bonds bear interest at the rate of 2.5 per cent, payable semi-annually. These bonds are suitable for those who prefer to receive current income from their savings. The purchase of Defense Bonds is also a convenient method of *systematic* saving.

The payroll deduction plan is a convenient method for the wage earner to save a part of his earnings each pay day. For the self-employed, there is the bond-a-month plan in which arrangements can be made with the bank to deduct the cost of the bond from one's deposit account each month. Of course, purchases can be made at any time from the local bank, postoffice, and other places where Defense Bonds are on sale, as well as during the drives. It is surprising how much we can accumulate in a few years through the regular purchase

of Defense Bonds. For example, the purchase of an $18.75 bond a month for 10 years provides a monthly income of $25 during the following 10 years.

Now Is a Good Time to Save

The time to save for that "rainy day" is when times are good. With personal income after taxes at an all-time peak and still rising, now is the time to buy more bonds and to hold on to those we have. The Defense Bond Drive affords us the opportunity to make our dollars do triple duty: help build up our national defense, help prevent inflation, and add to our savings.

EASIER REAL ESTATE CREDIT TERMS

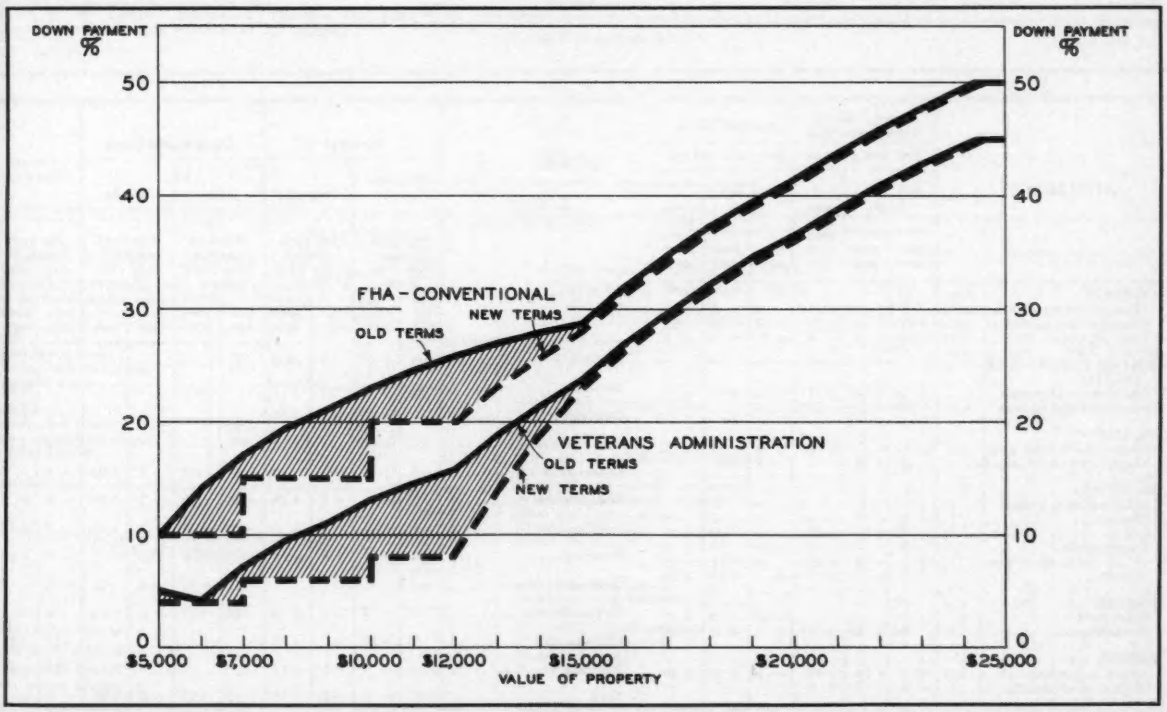
In accordance with the provisions of the Defense Housing and Community Facilities Act of 1951, approved September 1, the real estate credit terms prescribed by Regulation X and related restrictions have been revised.

Minimum down payment requirements on one-to-four family houses have been lowered, and maximum maturities of loans on houses valued up to $12,000 are now 25 years—an increase of 5 years on properties between $7,000 and $12,000.

Other amendments were made at the same time to suspend credit requirements in critical defense housing areas and to exempt from the regulation certain essential non-residential defense construction.

The following table shows the new down payment requirements, and the chart illustrates the extent of the relaxation.

Value of property	*FHA and conventional*	*VA*
$7,000 and less	10%	4%
7,001 to $10,000	15%	6%
10,001 to 12,000	20%	8%
Over $12,000	Gradually rising percentages up to 50%	Gradually rising percentages up to 45%



CURRENT TRENDS

Banking and business activity in the Third Federal Reserve District eased off slightly during July except for construction which rose substantially. The general slowdown was due, in part, to inventory indigestion and also seasonal factors such as the beginning of vacations and the arrival of hot weather.

Activity in Pennsylvania factories was affected by the usual summer letdown. Operations were curtailed by both non-durable and durable firms and industrial production dropped a few notches. Work forces and payrolls were also reduced, with most major industry groups reporting declines. Despite the various decreases for the month, total physical output, wages and employment were above a year earlier.

The lag in consumer buying continued to be evident even though income and the number employed remained very high. Department store sales managed to advance just slightly from June to July. However, they were considerably below the war-scare level of last year when they topped 1949 by 27 per cent. Sales in August also were behind a year ago, but they improved during the month in comparison with the waning weeks of last summer's buying spree.

The volume of construction contracts awarded rose in July with most of the increase occurring in the public works and utilities field. Residential construction declined again but was greater than that of last July. New contracts for non-residential building continued in heavy volume and for the first 7 months of this year showed a gain of 96 per cent over the corresponding 1950 period.

Business loans of Third District reporting member banks rose rather substantially in August chiefly reflecting industrial and trade demand for working capital and inventory. For the country as a whole, business loans also gained, but at a slightly slower rate.

The private money supply in July increased by $1.7 billion and is now nearly $6 billion larger than a year ago. A shift of deposits from Government to private account, as Government expenditures ran ahead of receipts, was responsible for the increase in deposits and currency held by business and individuals during the month.

SUMMARY	Third Federal Reserve District — Per cent change — July 1951 from mo. ago	Third Federal Reserve District — July 1951 from year ago	Third Federal Reserve District — 7 mos. 1951 from year ago	United States — Per cent change — July 1951 from mo. ago	United States — July 1951 from year ago	United States — 7 mos. 1951 from year ago
OUTPUT						
Manufacturing production	− 2*	+ 9*	+14*	− 4	+ 8	+16
Construction contracts	+10	+34	+28	−29	−11	+21
Coal mining	−22	− 3	− 6	−21	− 4	+ 9
EMPLOYMENT AND INCOME						
Factory employment	− 2*	+ 8*	+11*	− 1	+ 6	+11
Factory wage income	− 3*	+20*	+27*	.....	.....	.....
TRADE**						
Department store sales	+ 1	−13	+ 6	+ 2	−15	+ 6
Department store stocks	− 2	+28	.....	0	+31	.....
BANKING (All member banks)						
Deposits	− 1	+ 2	+ 4	0	+ 5	+ 6
Loans	− 1	+21	+25	− 1	+20	+25
Investments	0	− 9	− 9	0	− 7	− 8
U. S. Govt. securities	− 1	−13	−12	0	−11	−12
Other	0	+ 5	+ 6	+ 1	+12	+16
PRICES						
Wholesale	.....	.....	.....	− 1	+10	+17
Consumers	0†	+ 8†	+11†	0	+ 8	+10
OTHER						
Check payments	− 7	+10	+16	− 8	+13	+20
Output of electricity	− 6	+ 7	+ 9	.....	.....	.....

*Pennsylvania
**Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* Employment — Per cent change July 1951 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change July 1951 from mo. ago	Factory* Payrolls — year ago	Department Store Sales — Per cent change July 1951 from mo. ago	Department Store Sales — year ago	Department Store Stocks — Per cent change July 1951 from mo. ago	Department Store Stocks — year ago	Check Payments — Per cent change July 1951 from mo. ago	Check Payments — year ago
Allentown	−3	+17	−3	+33	.....	.....	.....	.....	+ 1	+16
Altoona	−2	− 4	+6	+14	.....	.....	.....	.....	− 5	+13
Harrisburg	0	+12	−2	+27	.....	.....	.....	.....	+ 1	+38
Johnstown	+1	+11	−1	+23	.....	.....	.....	.....	0	+10
Lancaster	−5	+ 3	−7	+12	−13	−10	−5	+22	− 5	+ 9
Philadelphia	−2	+11	−2	+24	−29	− 9	−7	+29	− 8	+ 9
Reading	−1	+ 1	−4	+ 6	−20	− 9	−7	+35	− 5	+15
Scranton	+3	+ 2	0	+ 7	.....	.....	.....	.....	− 7	+11
Trenton	.....	.....	.....	.....	−22	−15	−4	+27	− 5	− 3
Wilkes-Barre	−3	− 2	−1	+ 8	−18	−23	−6	+24	− 8	+ 5
Williamsport	0	+15	+2	+33	.....	.....	.....	.....	−10	+10
Wilmington	0	+ 5	−3	+13	.....	.....	.....	.....	−15	+17
York	+2	− 1	−2	+11	−14	−13	−2	+24	− 3	+ 3

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: July 1951 from month ago	Per cent change: July 1951 from year ago	7 mos. 1951 from year ago
MANUFACTURING (Pa.)	− 2	+ 9	+14
Durable goods industries	− 3	+ 17	+23
Nondurable goods industries	− 1	− 2	+ 3
Foods	+ 7	+ 4	+ 2
Tobacco	− 1	+ 4	+ 4
Textiles	− 6	− 16	− 3
Apparel	− 1	− 2	+ 2
Lumber	0	− 5	+ 1
Furniture	− 11	− 27	− 9
Paper	− 5	− 2	+ 9
Printing and publishing	+ 1	+ 1	+ 1
Chemicals	− 3	+ 10	+14
Petroleum and coal products	− 2	− 1	+ 3
Rubber	+ 2	+ 18	+25
Leather	− 2	− 7	+ 1
Stone, clay and glass	− 4	+ 10	+15
Primary metal industries	− 2	+ 14	+22
Fabricated metal products	− 7	+ 16	+31
Machinery (except electrical)	− 3	+ 18	+28
Electrical machinery	− 5	+ 16	+22
Transportation equipment	+ 2	+ 56	+31
Instruments and related products	− 7	+ 30	+35
Misc. manufacturing industries	− 5	+ 20	+23
COAL MINING (3rd F. R. Dist.)*	− 22	− 3	− 6
Anthracite	− 23	− 3	− 9
Bituminous	− 18	− 5	+16
CRUDE OIL (3rd F. R. Dist.)**	+ 2	− 7	0
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)†	+ 10	+ 34	+28
Residential	− 5	+ 10	+16
Nonresidential	+ 4	+102	+96
Public works and utilities	+107	− 18	−31

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. =100)	Employment: July 1951 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: July 1951 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: July 1951	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: July 1951	Average Hourly Earnings: % chg. from year ago
All manufacturing	137	− 2	+ 8	387	− 3	+20	$63.18	+12	$1.59	+11
Durable goods industries	168	− 2	+15	450	− 3	+29	69.15	+12	1.71	+12
Nondurable goods industries	107	− 2	− 2	303	− 1	+ 5	54.08	+ 8	1.40	+ 8
Foods	125	+ 5	+ 2	323	+ 7	+14	57.57	+12	1.36	+ 9
Tobacco	86	− 5	+ 3	229	− 1	+12	34.96	+ 9	.92	+ 8
Textiles	72	− 5	−11	199	− 7	− 8	49.75	+ 4	1.35	+ 9
Apparel	126	− 3	− 3	357	− 2	+ 4	40.22	+ 8	1.13	+ 6
Lumber	165	+ 2	− 3	414	− 1	+ 2	43.70	+ 5	1.10	+ 7
Furniture and lumber products	100	−11	−27	281	−12	−25	52.05	+ 3	1.23	+ 4
Paper	137	− 4	− 1	394	− 5	+ 6	62.01	+ 6	1.45	+ 7
Printing and publishing	118	+ 1	0	306	0	+ 7	73.03	+ 7	1.87	+ 6
Chemicals	146	− 5	+10	414	− 4	+19	67.76	+ 8	1.58	+ 8
Petroleum and coal products	158	− 1	+ 1	431	− 1	+ 7	82.10	+ 6	2.02	+ 8
Rubber	247	+ 2	+18	772	+ 5	+36	77.64	+15	1.86	+15
Leather	86	− 1	− 6	227	− 3	− 1	45.36	+ 5	1.20	+ 7
Stone, clay and glass	144	− 2	+10	395	− 4	+21	63.01	+11	1.63	+11
Primary metal industries	143	− 1	+13	392	− 2	+27	76.52	+12	1.92	+12
Fabricated metal products	178	− 4	+13	474	− 7	+26	63.25	+12	1.58	+10
Machinery (except electrical)	241	− 2	+18	672	− 2	+31	70.74	+11	1.66	+13
Electrical machinery	261	− 2	+17	590	− 5	+28	63.26	+10	1.60	+11
Transportation equipment	166	− 1	+53	454	+ 2	+75	77.56	+15	1.89	+11
Instruments and related products	188	− 1	+29	516	− 9	+42	62.86	+10	1.59	+10
Misc. manufacturing industries	146	− 3	+21	369	− 6	+29	51.80	+ 7	1.27	+ 8

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	July 1951 (Index)	Per cent change: July 1951 from month ago	Per cent change: July 1951 from year ago	7 mos. 1951 from year ago
SALES				
Department stores	288	+ 1	−13	+6
Women's apparel stores	225	− 2	− 5	+3
Furniture stores		−16*	−22*	+5*
STOCKS				
Department stores	309p	− 2	+28	
Women's apparel stores	258	+ 1	+23	
Furniture stores		− 1*	+34*	

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended August 4	−19
Week ended August 11	−15
Week ended August 18	−10
Week ended August 25	− 9

* Not adjusted for seasonal variation. p—preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. July 1951 from year ago	Sales: % chg. 7 mos. 1951 from year ago	Stocks (end of month): % chg. July 1951 from year ago	Stocks: Ratio to sales (months' supply) July 1951	Stocks: Ratio to sales (months' supply) July 1950
Total — All departments	−10	+3	+ 30	4.7	3.2
Main store total	−12	+4	+ 30	5.1	3.5
Piece goods and household textiles	−31	+6	+ 52	5.8	2.6
Small wares	− 5	+1	+ 12	5.4	4.6
Women's and misses' accessories	− 8	+4	+ 17	4.6	3.6
Women's and misses' apparel	+ 5	+7	+ 14	3.3	3.0
Men's and boys' wear	− 2	+5	+ 26	5.4	4.2
Homefurnishings	−23	+3	+ 41	6.1	3.4
Other main sture	0	+3	+ 53	5.0	3.3
Basement store total	− 6	+1	+ 29	2.8	2.0
Domestics and blankets	−26	+4	+102	3.9	1.4
Small wares	+10	−8	+ 5	2.1	2.2
Women's and misses' wear	− 3	+1	+ 11	1.8	1.6
Men's and boys' wear	+ 2	+4	+ 25	3.0	2.5
Homefurnishings	− 4	−4	+ 48	4.8	3.1
Shoes	− 3	+6	+ 17	3.7	3.0
Nonmerchandise total	− 1	+3	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales % chg. July 1951 from year ago	Sales % chg. 7 mos. 1951 from year ago	Receivables (end of month) % chg. July 1951 from year ago
Department stores			
Cash	− 3	+ 3	....
Charge account	− 8	+ 9	+10
Instalment account	−35	− 9	− 8
Furniture stores			
Cash	− 3	+ 8	....
Charge account	−12	−24	....
Instalment account	−13	+10	− 4

Loan Credit Third F. R. District	Loans made % chg. July 1951 from year ago	Loans made % chg. 7 mos. 1951 from year ago	Loan balances outstanding (end of month) % chg. July 1951 from year ago
Consumer instalment loans			
Commercial banks	− 9	− 8	− 4
Industrial banks and loan companies	− 3	+ 1	+ 4
Small loan companies	+16	+13	+10
Credit unions	+ 6	+ 4	+10

PRICES

Index: 1935-39 average = 100	July 1951 (Index)	Per cent change from month ago	Per cent change from year ago
Wholesale prices—United States	223	−1	+10
Farm products	255	−2	+10
Foods	235	0	+ 8
Other	208	−1	+11
Consumer prices			
United States	186	0	+ 8
Philadelphia	185	0	+ 8
Food	221	0	+ 7
Clothing	202	−1	+11
Rent	....	....	....
Fuel	151	0	+ 6
Housefurnishings	223	−1	+15
Other	169	0	+11

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended August 7	221	253	239	205
Week ended August 14	220	251	237	205
Week ended August 21	219	248	235	204
Week ended August 28	219	248	237	204

Source: U.S. Bureau of Labor Statistics.

BANKING

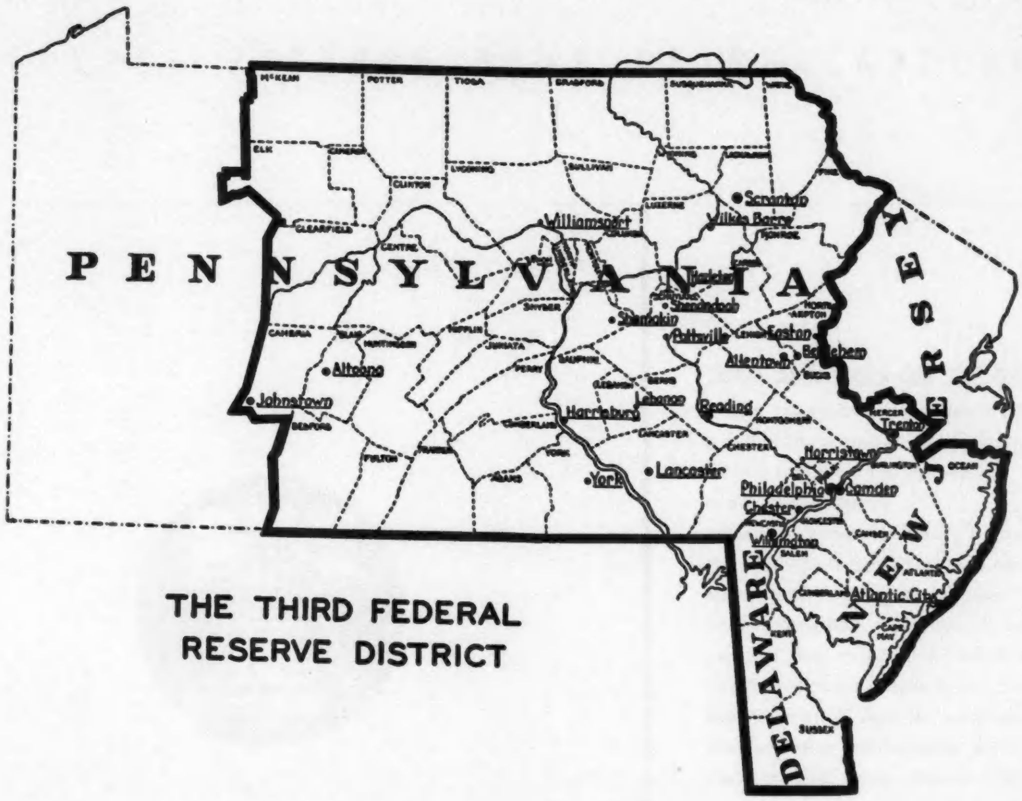
MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	July 25 1951	Changes in— four weeks	Changes in— year
Money supply, privately owned	176.0	+1.7	+5.7
Demand deposits, adjusted	90.8	+1.4	+4.4
Time deposits	60.1	+ .3	+ .7
Currency outside banks	25.1	+ .1	+ .7
Turnover of demand deposits	21.3*	−3.2*	+2.9*
Commercial bank earning assets	125.9	− .3	+3.6
Loans	54.6	− .4	+8.6
U.S. Government securities	58.6	0	−6.4
Other securities	12.7	+ .1	+1.4
Member bank reserves held	19.1	0	+2.7
Required reserves (estimated)	18.4	− .2	+2.9
Excess reserves (estimated)	.7	+ .2	− .2

Changes in reserves during 4 weeks ended July 25 reflected the following:

(Billions $)	Effect on reserves
Increase in Reserve Bank holdings of Governments	+.2
Decrease in Reserve Bank loans	−.1
Other Reserve Bank Credit	+.1
Increase of currency in circulation	−.1
Other transactions	−.1
Change in reserves	0

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	Aug. 22 1951	Changes in— four weeks	Changes in— year
Weekly reporting banks—leading cities			
United States (*billions* $):			
Loans—			
Commercial, industrial and agricultural	19.5	+ .6	+ 5.0
Security	1.8	− .3	− .5
Real estate	5.6	0	+ .6
To banks	.4	0	+ .1
All other	5.9	0	+ .5
Total loans—gross	33.2	+ .3	+ 5.7
Investments	37.6	0	− 3.5
Deposits	80.1	0	+ 3.5
Third Federal Reserve District (*millions* $):			
Loans—			
Commercial, industrial and agricultural	788	+ 30	+233
Security	40	− 2	− 6
Real estate	142	− 5	+ 15
To banks	5	− 6	+ 4
All other	391	+ 1	+ 33
Total loans—gross	1,366	+ 18	+279
Investments	1,510	+ 12	−253
Deposits	3,189	+ 57	+ 81
Member bank reserves and related items			
United States (*billions* $):			
Member bank reserves held	19.2	+ .1	+ 2.7
Reserve Bank holdings of Governments	23.1	0	+ 4.5
Gold stock	21.8	0	− 2.0
Money in circulation	27.9	+ .2	+ 1.0
Treasury deposits at Reserve Banks	.4	0	− .1
Federal Reserve Bank of Phila. (*millions* $):			
Loans and securities	1,457	− 5	+217
Federal Reserve notes	1,679	+ 8	+ 81
Member bank reserve deposits	898	+ 25	+137
Gold certificate reserves	1,212	+ 24	− 58
Reserve ratio (%)	45.3%	+ .5%	− 5.6%



THE THIRD FEDERAL RESERVE DISTRICT